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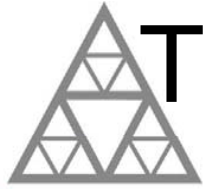
The practice of project appraisal in France and the role of CBA in decision making

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Outline

- Teachings from the French Case
- Comparison CBA/MCA
- Methodological Issues
- Issues related to the Decision-making Process
- Conclusions and possible Research Areas

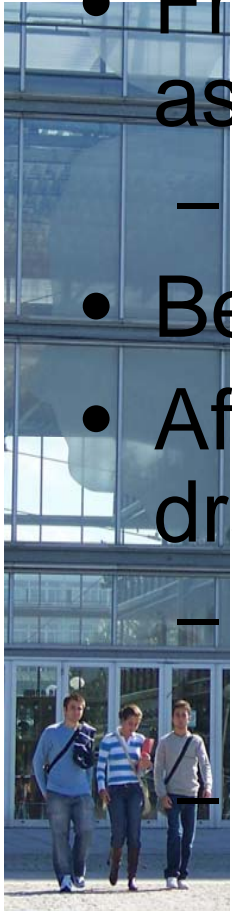


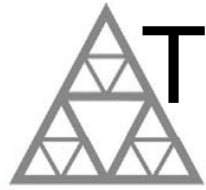
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Teachings from the French Case

- France has a long tradition of project assessment
 - With oscillations between pure CBA and MCA
- Before 2007, the lead was clearly to CBA
- After a new Government in 2007, a dramatic change happened
 - Merging between the Environment and the Transport administrations
 - Setting the « 5 ways Governance »





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Teachings from the French Case

- Two outcomes from this « 5 ways Governance », much in favour of Ecology
- A decision process
 - Beginning with a Masterplan (long term list of projects)
 - To be discussed by the stakeholders
 - To be assessed through new directives
- New directives
 - They list the impacts to be assessed
 - For instance: number of employment, total CO² emissions
 - Among which the socio-economic evaluation is just an item
 - But the mean to estimate those impacts is not given
- What will happen?
 - The directives will not be able to provide a proper assesment of the impacts
 - Socio-economic indicators will reappear
 - The final outcome will depend on the political forces
- Are MCA and CBA substitute or complements?



Comparison CBA-MCA



- MCA directly addresses the issues which are important and make sense for the decision-makers
- While socio-economic rate of return, the current outcome of CBA, does not make sense for decision makers
- But MCA does not provide any mean to answer these issues
 - The answers come from positive economic analysis and its improvements.





Comparison CBA-MCA

- Once these answers are known, the difference MCA/CB is mainly a matter of the valuation of effects (of relative values)
- Wrongly applied (without the bases provided by positive economic analysis), MCA can be:
 - misleading (risk of errors and double counting)
 - Paving the road to subjectivity





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Methodological Issues

- A large amount of recent progress :
 - Uncertainty
 - Value of Time and related items
 - Spatial effects
 - Environment
 - Increasing use of general equilibrium models (GEM)
 - ...



Methodological Issues

Some subjects rarely addressed
by directives and practice



- On the methodological side:
 - Possible incoherencies using Values of time (and more generally utility functions) different from those used in traffic modelling
 - Congestion in public (planned) transports
 - Foreign and national effects
 - Proper distribution of benefits between the stakeholders (needs GEM)
 - The time span of CBA is shorter than the life of the project
 - Consequences of imperfect competition



Methodological Issues

Some subjects rarely addressed
by directives and practice



- Closer to the decision-making side:
 - Optimistic bias
 - Solutions: more transparent studies, audit, institutional arrangements.
 - Directives are not differentiated according to the stage of the project
 - A sort of Uncertainty Principle
 - Project assessment is not used for programming (ranking independent projects)
 - Just to assess that each individual project satisfies some threshold



Issues related to the decision-making process



- Traditional CBA is fit for a benevolent and all-mighty planner
- The present decision making process involves several deciders with varied information level and objectives:
 - Illustrated by the case of the « five ways governance » in France
 - The tax-payers and the users are not directly involved...
 - The decision makers use the CBA as an argument in favour of their objectives
- The present decision making is also multi-stage:
 - The knowledge about the project is not the same at each stage
 - The decision can be reversed at each stage
- Which role of CBA:
 - To provide a language between the decision makers
 - It is important to make this language reliable





Decision maker	Objectives
<p>Political deciders (they are manifold)</p>	<p>Distribution, employment, economic development</p>
<p>Active minorities (e.g. the greens)</p>	<p>Environment, ...</p>
<p>Private firms (civil engineering, transport operators, vehicle makers)</p>	<p>Vested Interests</p>
<p>Financial actors (banks)</p>	<p>Risk management, financial profit</p>
<p>Economists</p>	<p>Efficiency</p>

Issues related to the decision-making process



- Improvements in implementation
 - Problem of communication
 - Translate the economic analysis into readable results
 - Needs progress in economic analysis to enlight the concerns of decision makers
 - Needs progress in communication
 - » The added value of MCA
 - Problems of reliability
 - To fight against optimistic bias
 - To reduce the extent of uncertainty and asymmetric information, in order to reduce the strategic game
 - The means:
 - » reference class,
 - » national expertise agency, individual certified expert audits,
 - » alternative studies;
 - » embed CBA in institutional arrangements providing the right incentives to the actors (the ambiguous role of PPP)





Conclusions and possible research areas

- CBA and MCA are (should be) more complements than substitutes
- Improvements in methodology
 - On the methodological side
 - Time horizon, distributive effects
 - Closer to the implementation side:
 - Decrease optimistic bias:
 - Differentiate the directives according to the stage of the project
 - Use CBA for programming (ranking independent projects), and not only use it to assess that each project satisfies some threshold



Conclusions and possible research areas



- Improvements in implementation
 - Take stock of the fact that the present decision making process involves several deciders
 - with varied information level and objectives
 - The decision makers use the CBA as an argument in favour of their objectives
 - CBA must provide a language between the decision makers
 - The language must be made understandable and reliable



Conclusions and possible research areas



- Improvements in implementation
 - Problem of communication
 - Translate the economic analysis into readable results
 - Economists must pay attention to the needs of the decision-makers
 - Problems of reliability and credibility
 - To fight against optimistic bias
 - To reduce the extent of uncertainty, asymmetric information
 - The means: varied, depend on the specific situations:
 - » reference class, expertise, institutional arrangements,...

